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Office Memorandum • UNITED STATES GOVERNMENT

TO : Deputy Director (Administration)

FROM : Comptroller

SUBJECT: Progress Report

DATE: 6 November 1951

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1. CONCEPT

The basic function of the Finance Office is to render effective, timely, and secure financial support for agency operations and activities. Our concept of the nature and scope of this task is outlined below:

a. Budgeting

Prepare the agency budget in such form as to focus attention on the general character and relative importance of activities and operations in terms of funds requirements, and administer the budget through a system of allotments and reports to assure that funds are apportioned and used in support of approved operational programs and objectives. We conceive the agency budget as being an instrument of management consisting of the processes by which work programs and operational objectives are translated into financial terms, analyzed, evaluated and determinations made and reflected in the form of budget estimates; the necessary funds justified and obtained from the granting authority and allotted or distributed to the proper units; adequate measures maintained for accountability and expenditure control and for assuring at all times that the funds utilized for the execution of authorized programs of work are being expended in the most effective and economical manner possible, and that the results are analyzed, measured, evaluated, and reported upon in an effective manner.

b. Disbursing and Monetary Activities

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Procure, maintain custody of, and disburse official funds required to support agency activities in such manner as to insure the security of the operation, the financial integrity of individuals, and prevent the physical loss, destruction, or theft of funds. Security requires the development and application of special methods and techniques in connection with

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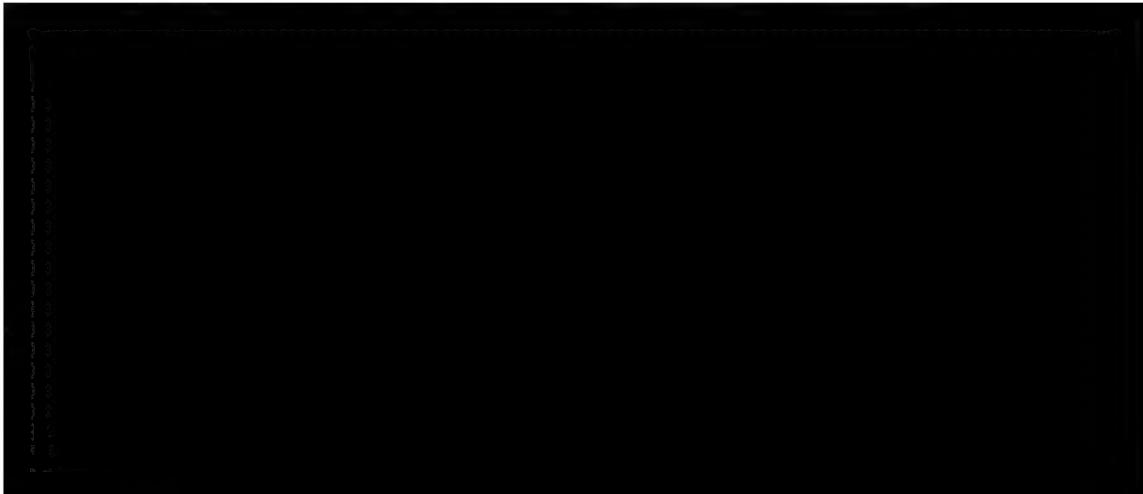
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c. Accounting

Develop sound accounting practices and procedures which fix responsibility for the reporting and accounting for expenditures to the degree compatible with security and operational circumstances, and maintain such accounts and records as may be required to provide a basis for comprehensive financial reports to the Director and operating officials. The traditional accounting concepts of government and business is based upon various systems of checks and balances, and such systems are dependent upon basic factual documents, usually of a formal or standardized type. In this agency however, the security and operational circumstances attending the expenditure of funds for intelligence operations demands that balanced recognition be given to the need for a flexible basis of accounting in the light of varying types of operations and security conditions. It is therefore important that the agency accounting procedures consist of "Rules of Reason" instead of "Rules of Thumb" and that stress be placed upon principals and criteria instead of inflexible regulations. Our general concept of the requirements for basic accounting is to get properly itemized vouchers or receipts wherever, and to the extent that, security and operating conditions permit, and in the instances where security does not permit to require a positive statement from the individual expending the funds that they were expended for a proper official purpose in connection with a specific project or activity. The need for flexibility in accounting procedures is apparent when viewed in the light of the fact that more than

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projects and individuals have custody and physical possession of official funds which they are authorized to expend for official purposes.

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d. Audit and Inspection

Conduct such examinations and audits of vouchers, accounts, and records, and such site audits and inspections of financial activities at installations or field locations as may be necessary to assure the administrative competence and fidelity of individuals in connection with the expenditure of funds for proper official purposes in accordance with established agency policies. The complexity and geographical dispersion of our financial transactions, and the degree of flexibility and tolerance which must be observed, for security reasons, in connection with our accounting requirements, presents opportunities for indolent and unethical financial practices to flourish behind a screen of "security". Our observation of the financial case history of covert operations in this and the predecessor agency leads us to believe that abusive or unethical financial practices will not be followed by the majority of our employees even where there is no restraining influence in the form of an audit and inspection program. However, it appears that the instances of abuse do increase where there is a lack of adequate financial audit and inspection. It also appears that there is a direct relationship between financial objectivity and integrity and operational objectivity and security, and that financial abuses tend to pervert or distort operational objectivity and results in unproductive and abortive operations. Another aspect which must be considered is that the funds we use are public funds and it is a fundamental concept in the United States that there must be an accounting for the "peoples" money. The Congress has, in the interest of national security, authorized the agency to account for funds by a certificate from the Director to the effect that the funds have been properly spent for the public benefit. It appears obvious that any repeated instances of flagrant abuse or laxity in connection with this discretionary responsibility would serve to undermine the confidence of the Congress and the public, in the agency, which in all likelihood would result in a decrease or curtailment in the present discretionary powers of the agency with respect to the use of public funds. Our concept of the Audit and Inspection function is that it should be the instrument used to deter, check, or prevent such abusive practices and insure that a high standard of individual integrity and official objectivity is observed in the use of official funds.

2. WHAT WE HAVE DONE

October 1950 to the present was a period of rapid growth of agency operations and activities. During this period agency staff employees were increased more than 30%, the number of covert agents by more than 50%, and the dollar volume of expenditure of appropriated funds has more than doubled. The number of operational projects has not only increased in volume, but also in complexity

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from the standpoint of financial support. Many of the new programs undertaken by the agency involved the development of new principals and techniques and in other respects placed heavy demands upon the time of finance employees in rendering the desired financial support. The Finance Office has been handicapped by the lack of adequate staff to deal with this increased business at the Headquarters level and this problem has been further aggravated by the necessity of having to dispatch experienced personnel as Finance Officers for field installations and the training of new employees to replace them. The inexperience of many of the new operational officers with respect to the financial and security concepts necessary in supporting operations has also added materially to the task of rendering effective financial support. Despite these handicaps we have absorbed this increased work load and have met the specific positive requirements of the operating offices for financial support. We therefore feel that our most significant accomplishment during this period has been the day to day financial services and support rendered the operating offices in connection with the launching of new projects and activities. Other accomplishments and activities which we think worthy of mentioning are as follows:

- a. Participated in the development of a plan for the administrative

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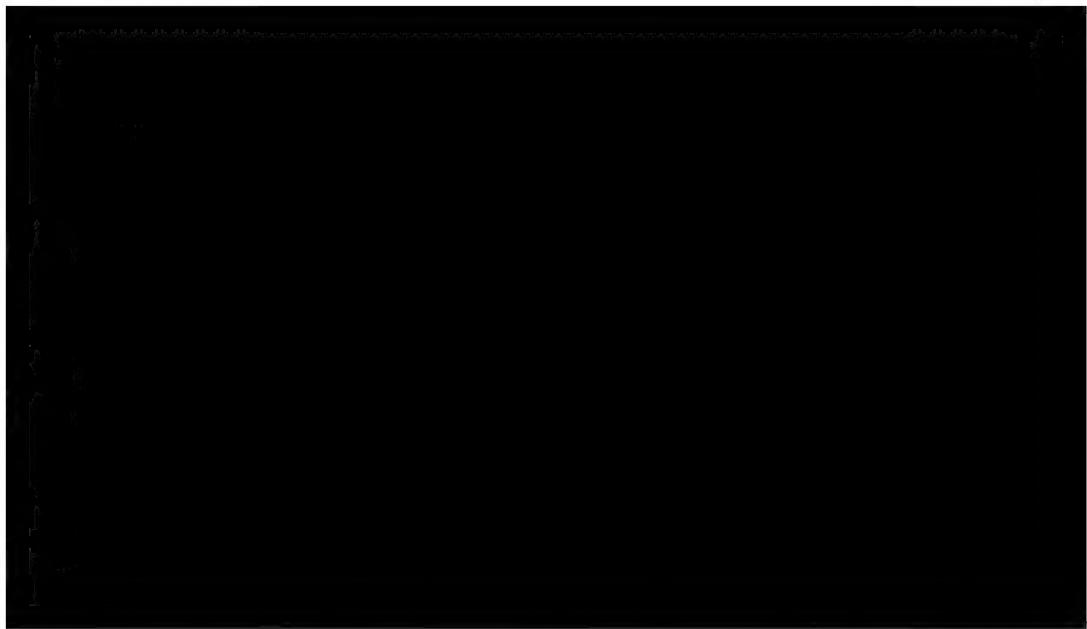
- b.

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- f. Through a series of meetings and discussions with representatives of The Bureau of the Budget, GAO, Treasury, and the Defense Department, arrangements have been made to exempt this agency

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from certain accounting requirements of Accounting Systems Memorandum No. 9 and Budget and Treasury Regulations # 2, which will serve to conceal the scope, nature, and detail of CIA financial activities from persons outside the agency.

- g. New field accounting manuals covering the use of unvouchered funds at overseas stations, have been developed, coordinated with the operating offices, and released to field installations.
- h. New payroll techniques have been developed for paying covert employees and agents, coordinated from a security standpoint with I&S and the operating offices and placed into effect.
- i. Participated in the development of a number of procedures and regulations designed to eliminate trivia and red tape and facilitate fulfillment of operational requirements by (1) Delegating authority to field installations for approving and paying certain travel, procurement, and related expenses, (2) Clarification of procedures pertaining to payments to military personnel for travel, allowances, and related expenses, (3) Establishment of a centralized travel processing section at the headquarters level to expedite and simplify the processing of employees proceeding to and returning from overseas stations, (4) Simplification of procedures pertaining to claims for local transportation and taxi fares, travel of consultants and invitees, and travel of agents.
- j. Participated in the development of a comprehensive statement of policy defining the financial rights, privileges, and benefits, of all categories of covert employees, consultants, and agents, which was approved by the Director and published as Part XIV of the Confidential Funds Regulations.
- k. Developed comprehensive procedures and coordinated same with the [REDACTED]

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[REDACTED]
operations in the event of military invasion or the seizure of political power in those countries by forces unfriendly to the United States.

- l. Developed new sources for the procurement of increasing requirements for foreign currencies, and initiated a series of actions designed to broaden the scope and improve the security techniques employed in connection with our funding and monetary activities and services. Developed a plan which has been presented to the DDA, for the acquisition of a bank abroad which could be used as a "chosen instrument" to support agency monetary and funding activities.
- m. Effectuated revision in the headquarters bookkeeping system for unvouchered funds and converted some phases to IBM machines.
- n. Strengthened the disbursing procedures and facilities for

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physical protection and safeguarding of unvouchered funds at headquarters, resulting in a better system of checks, balances and controls.

- o. Initiated an audit program to service agency development and procurement contracts, and conduct site audits on cost-plus and incentive type contracts. These later type contracts have doubled in number and increased in dollar volume from [REDACTED].

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- p. Established and maintained accountability control records on the expenditure of more than [REDACTED] of foreign currencies (5% counterpart funds) turned over to this agency by [REDACTED] on behalf of that agency.

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- q. Effected improvements in the budget formulation process to provide a more sound basis for forecasting the financial requirements of projects and activities. Especially significant in this connection is the development and extension of the project concept as a basic unit for the formulation and review of financial requirements.
- r. Effected improvements in the system for allotment and control of funds through revision of the allotment structure, and development of new methods for the analysis of funds requirements and more adequate budgetary reporting.

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- s. Established a unit within the Comptroller's office for the support of the Covert Coordination Committee to facilitate the review of [REDACTED] proprietary projects and devise administrative and financial plans for the support of such projects. [REDACTED] projects have been activated to date.
- t. Initiated an audit program designed to reveal and protect the agency assets and interests in proprietary projects, and support and facilitate the operating offices in their administration and control of such activities.

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u.

[REDACTED]

v.

[REDACTED]

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w.

[REDACTED]

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3. WHAT WE NEED TO DO

In view of the agency practice of activating new projects to exploit targets of opportunity whenever fortuitous circumstances indicate a possibility of success, it is difficult to visualize the exact nature and scope of the financial support which may be required for these as yet unborn projects. However, it is clear that we should expand our finance activities to provide for reserve or stand-by personnel and facilities so that quick and effective financial support may be rendered such projects as they are activated. As to improvements in our financial systems and procedures we believe this to be essentially an evolutionary process consisting of a molding of systems and procedures to the particular needs involved in the light of accumulated experience, instead of drastic changes which overtax existing facilities or jeopardize the security of operations. In this respect we feel that limited improvements in the right direction, even though they fall short of ultimate objectives, will prove more effective than "master" plans for improvement which cannot be adequately implemented. Following is a list of objectives indicating the direction in which we should proceed to effect needed improvements:

- a. Recruit and train additional staff to meet the demands for service occasioned by agency expansion, with special emphasis upon the training and dispatch of Finance Officers to render finance service and support for major field installations and projects.
- b. Strengthen our audit and inspection program, especially with respect to site audits and inspections of contracts, proprietary projects, and major field installations.
- c. Develop a more comprehensive and flexible accounting and reporting system for the agency.
- d. Revise and reissue the Confidential Funds Regulations in a form in which they can be used and referred to more effectively.
- e. Continue efforts to broaden the scope and improve the security techniques employed in budgetary, monetary, and disbursing activities.

E.R. SAUNDERS

Attachment

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